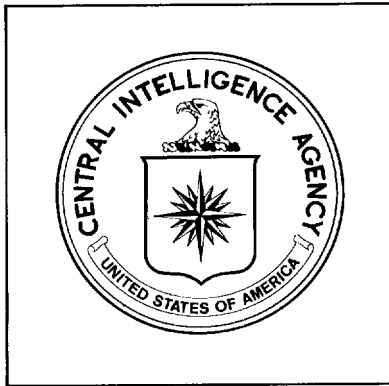


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STAFF NOTES:

**Middle East
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No. 0826/75
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MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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~~SECRET~~Egypt*Saudi Aid Bails Cairo Out*

Egyptian President Sadat's gamble that he would get more Arab cash this year has paid off. Extensive aid from Saudi Arabia has bailed Cairo out of a financial bind that threatened to limit the imports needed to sustain economic growth and living standards.

At the beginning of 1975, Egypt faced a financial crisis brought on by low export earnings, large foreign debt payments, and a winding down of Arab aid. Sadat was unwilling to reduce imports; he banked, instead, on further Arab aid to cover the payments gap.

1 Last month, the Saudis extended a cash loan of \$600 million. Cairo also has \$900 million in cash pledges from other members of the Organization of Petroleum Exporting Countries, at least \$300 million in long-term credits, \$350 million in unused project aid, and \$200 million from other sources--making a grand total of \$2.35 billion in aid available this year. Egypt can as a result cover its current-account deficit of \$1.7 billion and its long- and medium-term economic debt repayments of \$500 million. Cairo may, however, have additional foreign exchange requirements if military debt obligations to the USSR are not renegotiated.

If hostilities are not renewed, Cairo's annual foreign exchange earnings could double in the next three years. By 1978, Egyptian oil output should rise to roughly 650,000 barrels a day. Allowing for domestic consumption, oil exports would yield about \$800 million annually.

Earnings on the service account should also increase. Hotel construction probably will help tourist earnings to top \$800 million by 1978; \$500 million is anticipated in 1975. Suez Canal fees will increase from an estimate \$175 million in 1975 to as much as \$375 million in 1976.

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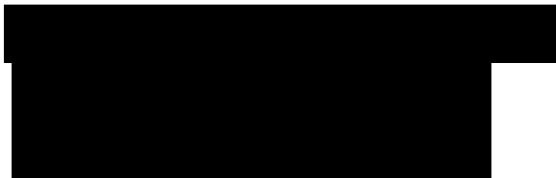
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Transportation and distribution problems should ease by 1978. We anticipate a 50-percent increase in berthing space at the port of Alexandria by late 1977. The World Bank is underwriting major improvements in the railway system.

The Egyptian economy has in recent years been held below its growth potential by severe shortages of foreign exchange, the priority demands of the conflict with Israel, and an enervating system of bureaucratic controls. To reach this potential, the economy has to have larger foreign exchange earnings, a higher rate of investment in both the private and state sectors, and a more favorable environment for private business. Progress in all three directions can best be achieved within a climate of peace.
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Iran

Balance of Payments Position Continues Strong

1, 4, 5 At the Shah's instigation, Iranian officials and the press are giving the impression that foreign aid and economic development efforts will have to be held down because of the decline in oil earnings in 1975. In fact, the Iranian balance of payments remains very strong. We believe that Tehran is using the drop in its oil revenues as an excuse to reject various requests for aid and to raise oil prices.

8 In early 1975, the Shah directed his subordinates to stress the decline in oil revenues in turning down aid requests. The excuse was used in rebuffing requests for loans--and for price concessions on oil purchases--from a number of less developed countries of little economic and political interest to Iran. Tehran told the International Monetary Fund that Iran was considering a delay in making its full \$1-billion commitment to the oil facility, pending examination of the balance of payments later in the year. The Iranian press expanded the theme of financial woe by suggesting that cutbacks in economic development might be necessary.

3 The balance-of-payments fears expressed by Iran are unwarranted. Although Iran's export earnings declined by 5 percent in the first half of 1975 compared with the previous half, they should pick up in coming months because of seasonal factors and the recovery in world economic activity. We believe that oil revenues will be only \$600 million lower in 1975 than in 1974, in contrast to the \$3.5 to \$4 billion drop recently forecast by Minister of Interior Amouzegar. Even with imports rising 50 percent in value, we expect Iran to have a \$10-billion current-account surplus in 1975.

8 Iran's lending and investments in 1975 probably will approach a record \$4 billion--roughly double the 1974 level. About one fifth is earmarked for the

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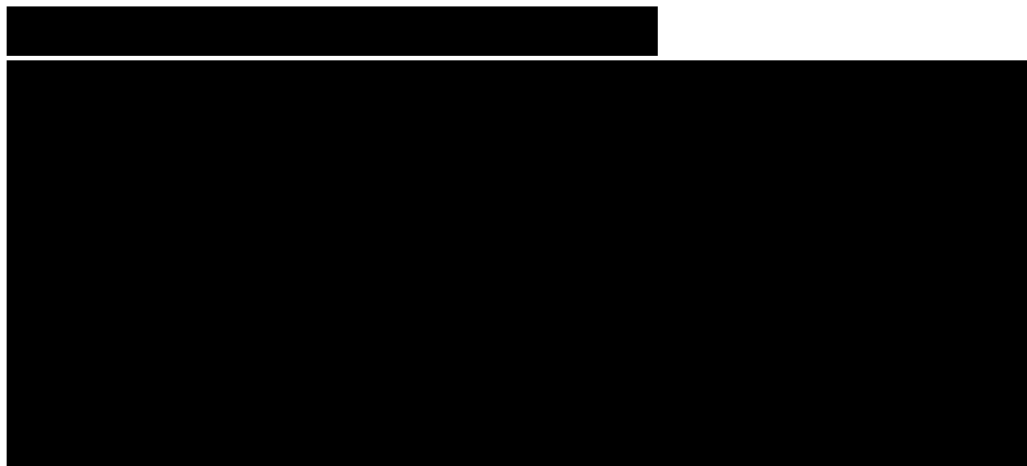
communist countries of Bulgaria, Romania, and North Korea, where Iranian interest in acquiring raw materials meshes with a desire for improved political relations. The Shah's effort to gain more influence with the front-line Arab states is a major factor in aid flows to Egypt (forecast at \$250 million in 1975) and could bring badly needed assistance to Syria.

Loans to the French and British governments, together with investments in the French nuclear energy industry and in a West German machine tool and construction firm, will total well over \$1 billion in 1975. Loans to the IMF oil fund and purchases of bonds of the International Bank for Reconstruction and Development together will probably exceed \$1 billion; both offer attractive returns as well as political prestige for Iran.

Even so, Iran should rack up a payment surplus of \$6 billion in 1975, boosting foreign reserves to \$15 billion. (SECRET NO FOREIGN DISSEM)

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Zaire

Aftermath of the Plot

3 Zairian President Mobutu has purged his army, following allegations several weeks ago of a US-backed plot to overthrow him. Mobutu now seems bent on using the expose for a domestic campaign to revive his "revolution," which has become bogged down in economic dislocation and bureaucratic inertia. His campaign is likely to keep Zaire in a state of agitation for some time.

Since mid-June, at least ten Zairian army officers and enlisted men have been arrested for being directly linked to the plot or for failing to uncover it. The US ambassador was expelled. Early this month, Mobutu sacked an additional seven generals, most regional commanders, and three colonels. These officers were not publicly linked to the alleged plot. The generals, rather, were replaced by colonels who are younger and presumably more in step with Mobutu's policies. Mobutu also has called home a number of military attaches.

On July 3, Mobutu decreed that Zairians married to foreigners can no longer serve as officers or non-commissioned officers. According to the Zairian press, at least half the officers involved in the plot are married to Belgian or American women who supposedly acted as contacts for their husbands.

Whatever Mobutu may personally believe about the plot, he apparently is taking no chances. The Zairian leader began his political career in a period of intrigue and turmoil, and he participated in those intrigues. He no doubt accepts plots against a head of state as a fact of life--a point of view probably sharpened by his awareness of growing restiveness in the army. The discontent of the military mainly stems from the rising cost of living, shortages of consumer goods and equipment, the government's failure to pay salaries on time, and the withdrawal of a number of perquisites enjoyed by senior officers.

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25X1C 3 Rumors that "something would happen" have been rife in Kinshasa for some time. [REDACTED] four enlisted men were executed last February for planning to assassinate Mobutu. In early May, the government decreed stiff penalties for anyone found spreading "false rumors."

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3 A number of civilian officials, including the state commissioner for posts and telecommunications, have recently been arrested in connection with the alleged plot. A former governor of the National Bank of Zaire, who fled the country in 1970 while being investigated for embezzlement, is charged with being a major fund-raiser for the plotters. Proceedings for his extradition from Belgium are currently under way.

3 In addition to taking precautions and settling old scores, Mobutu may see the alleged plot as a handy tool to use to get his programs moving again. He has, for example, charged that the plot was led by reactionaries who disagreed with the economic reforms he decreed last December. The Zairian press, at Mobutu's bidding, is playing the same theme, promising that older, conservative officials who cannot adjust to new political and economic realities will be replaced by "true believers in Mobutuism."

2, 3 Mobutu apparently perceives two major obstacles to his programs--a seriously dislocated economy and an unpredictable army. Zaire's economy is caught in a squeeze. He apparently is counting on an eventual rise in the price of copper, similar to upswings that have helped the country out of economic downturns in the past. It may, however, take more than a rise in prices to bail out Zaire this time.

1, 2 Mobutu has stubbornly refused to make the extensive changes deemed necessary by the International Monetary Fund to revive Zaire's economy. Instead, he has sought short-term relief in the form of loans from Arab states, France, and West Germany. His next effort may be to purge those officials he regards as unwilling or unable to institute and administer his nationalization program.

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3 As for the army, Mobutu has long realized that it is undisciplined and has become an economic burden; last December he ordered it to give top priority to agricultural development. Zaire now imports the bulk of its food needs; it has the potential to be self-sufficient. Mobutu also has informed the army that he intends to raise its "political consciousness." He has selected a group of 500 younger officers to start a political commissar program designed to tighten discipline and ensure Mobutu's preeminence.

3 Largely because of Zaire's economic problems, Mobutu's domestic reputation as a leader has been sullied. He has sought to refurbish it through public appearances and dramatic announcements, but he has found in his meetings open criticism that would have been unthinkable two or three years ago. Mobutu's position, nevertheless, appears to be in no danger. His key military and political subordinates support him and his security services monitor grumbling in the army.

Relations with the US

Mobutu has, by implication, publicly linked the US to the alleged plot and has not demurred when Zairian and foreign journalists have spread stories of US complicity. He finds it politically expedient not to publicize US denials.

2 He has, however, made some effort to assure US businessmen that US investments in Zaire are not threatened. At the height of the anti-US campaign last month, he gave orders to prevent anti-US demonstrations and has since acted to suppress particularly strong criticism of the US in the local press.

2 Our relations with Mobutu, nevertheless, are not likely to return to normal for some time. He probably believes the US is not doing enough to help him out of his financial troubles and is waiting to see what future contributions--economic and political--we will make on his behalf. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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